

SEC Number AS096-005555  
File Number \_\_\_\_\_

**PHILIPPINE NATIONAL BANK  
AND SUBSIDIARIES**

\_\_\_\_\_  
(Company's Full Name)

**PNB Financial Center,  
Pres. Diosdado P. Macapagal Boulevard, Pasay City**

\_\_\_\_\_  
(Company's Address)

**(632) 891-6040 to 70**

\_\_\_\_\_  
(Telephone Number)

\_\_\_\_\_  
(Calendar Year Ended)

**SEC FORM 17-Q REPORT**

\_\_\_\_\_  
Form Type

\_\_\_\_\_  
(Amendment Designation (if applicable))

**JUNE 30, 2007**

\_\_\_\_\_  
Period Ended Date

**LISTED**

\_\_\_\_\_  
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

- 1. For the quarterly period ended June 30, 2007
2. Commission Identification No. AS096-05555
3. BIR Tax Identification No. 000-188-209
4. Exact name of issuer as specified in its charter: Philippine National Bank
5. Philippines
6. (SEC Use Only)
7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City 1300
8. (632)/891-60-40 up to 70
9. not applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

Table with 2 columns: Title of Each Class, Number of Shares Issued. Rows include Convertible Preferred Stock, P40 par value (54,357,751 shares) and Common Stock, P40 par value (518,888,165 shares).

11. Are any or all of these securities listed on a Stock Exchange:

Yes [x] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange Common Stocks

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) - 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes [x] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [x] No [ ]

## **PART I - FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

The accompanying consolidated financial statements of Philippine National Bank and its Subsidiaries (the Group) which comprise the statements of condition as of June 30, 2007 and December 31, 2006 and the statements of income, statements of changes in equity and statements of cash flows for the semester and quarter ended June 30, 2007 and June 30, 2006 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), except for the deferral of losses on sale of non-performing assets (NPAs) to special purposes vehicles (SPVs) in 2004, 2005 and 2006 which were taken up in line with Republic Act No. 9182 (The Special Purpose Vehicle Act of 2002), and the non-consolidation of the SPV that acquired the NPAs in 2006. These were also filed as part of this SEC Form 17-Q report (please refer to pages 8 to 15), viz:

- Consolidated Statements of Condition (p. 8)
- Consolidated Statements of Income (p. 9)
- Consolidated Statements of Changes in Capital Funds (p. 10)
- Consolidated Statements of Cash Flows (p. 11)
- Selected Notes to Consolidated Financial Statements (p.12-15)

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **(1) Management's Discussion and Analysis**

##### **A. Financial Condition**

- The consolidated resources as of June 30, 2007 was ₱240.14 billion, ₱3.33 billion lower compared to ₱243.47 billion as of December 31, 2006 as the Bank settled its ₱6.1 billion loan to the PDIC in June 2006, four years ahead of the loan's due date. Payment was sourced from the Bank's excess liquidity.

Significant changes were registered in the following asset accounts:

- Cash and Other Cash Items was lower by ₱491 million from ₱4.82 billion to ₱4.33 billion. The level of cash is maintained based on the limits set under existing Bank's policies.
- Due from Bangko Sentral ng Pilipinas (BSP) increased by ₱5.39 billion from ₱12.57 billion to ₱17.96 billion, partly to cover additional reserve requirement resulting from the increase in deposit liabilities.
- Due from Other Banks increased by ₱2.60 billion from ₱3.56 billion to ₱6.15 billion due to higher balance of accounts maintained with foreign banks.
- Interbank Loans Receivable decreased by ₱7.27 billion from ₱22.41 billion to ₱15.14 billion due to lower lending to foreign banks.

- Securities Held Under Agreements to Resell decreased by ₱9.20 billion, from ₱15.70 billion to ₱6.50 billion as lending to BSP decreased.
  - Available for Sale Investments increased by ₱4.25 billion from ₱42.82 billion to ₱47.07 billion due to additional purchases of government securities.
  - Securities at Fair Value Through Profit or Loss increased by ₱5.74 billion from ₱1.14 billion to ₱6.88 billion accounted for mainly by additional investments in government securities.
  - Held to Maturity Investments decreased by ₱1.19 billion, from ₱1.55 billion to ₱362 million due to reclassification to Available for Sale Securities of certain securities in accordance with BSP Circular No. 558.
  - Investment in Subsidiaries and an Associate decreased by ₱101 million, from ₱802 million to ₱701 million mainly attributed to decrease in share in equity of an associate.
  - Other Resources decreased by ₱824 million, from ₱11.68 billion to ₱10.86 billion mainly due to the sale of the second pool of Non-Performing Assets (NPAs) which was completed in March 2007. Certain NPAs of the Bank were sold to SPV and divided into two pools. In December 2006, the sale of the first pool was implemented while the second pool was temporarily reported as NPAs to be sold under Other Assets.
- The consolidated liabilities decreased by ₱2.32 billion from ₱218.71 billion as of year-end 2006 to ₱216.39 billion as of June 30, 2007. Material changes in liability accounts are as follows:
    - Total deposits grew by ₱1.73 billion from ₱181.67 billion to ₱183.40 billion accounted for by increase in demand and time deposits by ₱1.04 billion and ₱3.91 million, respectively, partly offset by decrease in savings deposit by ₱3.21 billion.
    - Bills and Acceptances Payable decreased by ₱1.48 billion, from ₱10.96 billion to ₱9.48 billion mainly due to the settlement of the ₱6.1 billion PDIC loan, partly offset by new interbank borrowings.
    - Accrued Taxes, Interest and Other Expenses dropped by ₱295 million, from ₱4.90 billion to ₱4.60 billion mainly attributed to lower expenses as a result of the PDIC loan settlement.
    - Other Liabilities decreased by ₱2.29 billion, from ₱12.80 billion to ₱10.51 billion. This pertains mainly to Manager's/Cashier's Checks Outstanding which decreased from ₱1.98 billion to ₱510 million due to negotiations.
  - The consolidated capital funds stood at ₱23.75 billion as of June 30, 2007.

## B. Results of Operations

- PNB and its subsidiaries reported a consolidated net income of ₱622 million for the first semester of 2007, 46% higher compared to ₱427 million net income for the same period last year.
- Net interest income amounted to ₱2.71 billion for the 1<sup>st</sup> semester of 2007. The Interest income this semester decreased by ₱349 million compared to the same period last year, accounted for by ₱378 million decrease in interest income on loans and receivables and ₱153 million decrease in interest income on investment securities mainly due to lower average interest rate on loans and securities, partly offset by ₱182 million increase in interest on deposits with banks.

Interest expense for the first semester 2007 decreased by ₱335 million accounted for by ₱541 million decrease in interest on deposits mainly due to lower average interest rates partly offset by higher interest on borrowings by ₱206 million resulting from the issuance of additional subordinated notes in August 2006.

- Other income composed of trading and investment gains, foreign exchange gains and miscellaneous income decreased by ₱565 million, ₱418 million and ₱497 million, respectively. The lower trading and investment gain was attributed mainly to lower mark to market gain on securities. Foreign exchange gains declined due to the continuous appreciation of the Philippine peso against the US dollar. Decrease in miscellaneous income was attributed mainly to fair value adjustments on investment properties acquired resulting to higher income recognized in 2006.
- Net service fees and commission was ₱1.143 million for the first semester 2007, lower by ₱107 million from ₱1.250 million for the first semester 2006. This was accounted for by the decrease in service fees income by ₱95 million mainly due to lower trust income and ₱12 million increase in banking fees due to higher average assessable assets in 2007 compared to 2006.
- Total operating expenses went down by ₱1.61 billion from ₱6.40 billion to ₱4.79 billion accounted for mainly by lower provision for impairment and credit losses by ₱1.05 billion as NPAs were substantially reduced thru the sale under SPV in December 2006.
- Provision for income tax was ₱261 million and ₱481 million for the semesters ended June 30, 2007 and 2006, respectively.

## C. Key Performance Indicators

### 1. Capital Adequacy

The consolidated capital adequacy ratio computed based on BSP regulations as of June 30, 2007 and December 31, 2006 were 20.0% and 19.6%, respectively.

## 2. Asset Quality

The amount of non-performing loans (NPL's) was further reduced by ₱1,550 million from ₱12,297 million as of December 31, 2006 to ₱10,747 million as of June 30, 2007 mainly due to payments of past due loans and foreclosures.

## 3. Profitability

	<b>1<sup>st</sup> Semester Ended</b>	
	<b><u>6/30/07</u></b>	<b><u>6/30/06</u></b>
Return on equity <sup>1/</sup>	<b>5.1%</b>	3.8%
Return on assets <sup>2/</sup>	<b>0.5%</b>	0.4%
Net interest margin <sup>3/</sup>	<b>3.2%</b>	3.5%

*1/ Net income divided by average total capital funds for the period indicated. Net income for the six months is annualized*

*2/ Net income divided by average total assets for the period indicated. Net income for the six months is annualized*

*3/ Net interest income divided by average interest-earning assets for the period indicated. Net income for the six months is annualized*

## 4. Liquidity

The ratio of liquid assets to total assets was 43.3% and 42.3% as of June 30, 2007 and December 31, 2006, respectively.

The Bank is in compliance with liquidity and legal reserve requirements for deposit liabilities.

## 5. Cost Efficiency

The ratio of total operating expenses (excluding provision for losses) to total operating income was 72.8% and 64.5% for semester ended June 30, 2007 and June 30, 2006, respectively.

## D. Other Activities

- The Bank settled its ₱6.1 billion loan to the Philippine Deposit Insurance Corporation (PDIC) in June 2007, four years ahead of the loan's due date. The loan payment is a clear indication of the Bank's exit from the five-year Rehabilitation Program of which the P6.1 billion loan was an integral part. Payment was sourced from the Bank's excess liquidity.
- The Bank sealed an agreement with G-Xchange, Inc. (GXI), a subsidiary of Globe Telecom and a pioneer in m-commerce for the pay out of PNB overseas remittances in the growing number of GCash outlets all over the country. Powered by GCash's newly launched Advise and Pay service, this agreement further expands PNB's remittance pay out channels bringing greater convenience to beneficiaries of Overseas Filipino Workers (OFWs) for they can now claim their remittances in more locations nationwide.

- The Bank recently signed a Memorandum of Agreements with:
  - Sta. Lucia Realty & Development, Inc. wherein PNB shall receive the remittances of Sta. Lucia's customers through the Bank's network of overseas branches or remittances centers.
  - Quadrillon Inc. to expedite remittances of its Filipino migrant workers. Quadrillon is a real estate firm engaged in product development, sales, marketing and property management
  - PNCC Skyway Corporation (PSC) to allow PNCC ePASS subscribers to replenish their ePASS tags via PNB's eCollect service facility and to send payments using any of the Bank's electronic channels such as over-the-counter, ATM, phone, mobile and internet banking facilities.

#### **E. Known trends, demands, commitments, events or uncertainties**

There are no known demands, commitments, events or uncertainties that will have any material effect on the Group's liquidity or income from operations within the next twelve (12) months.

#### **F. Events that will trigger direct or contingent financial obligation**

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

#### **G. Material off-balance sheet transactions, arrangements or obligations**

A summary of various commitments, contingent assets and contingent liabilities as of June 30, 2007 and December 31, 2006 at their equivalent peso contractual amounts are presented in the Selected Notes to Consolidated Financial Statements (Note 4) on page 14 of this report.

#### **H. Capital Expenditures**

The Bank has commitments for capital expenditures. Among these are investments on IT-related projects (i.e. Core Banking System Project, Branch Delivery System Full Deployment, Integrated Remittance System Server, Phone-banking System back-up tape drive, Internet Banking System Servers and Credit Risk Rating System), leasehold improvements, major repairs of bank-owned buildings, relocation and renovation of branch buildings, acquisitions and major repairs of furniture, fixtures and equipment needed to bring the Bank at par with competitors. Expected sources of funds for the projects will come from sale of acquired assets and funds generated from operations.

## **I. Significant Elements of Income or Loss**

Significant elements of the consolidated net income of the Group for semester ended June 30, 2007 came from its continuing operations.

## **J. Seasonal Aspects**

There are no seasonal aspects that had a material effect on the Group's financial condition and results of operations.

## **(2) Aging of Receivables from Customers**

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) per its Circular No. 2164-99 and letter dated August 23, 2001 is shown on page 16.

## **PART II – OTHER INFORMATION**

### **ITEM 1. Any information not previously reported in a report on SEC Form 17-C**

There is nothing to report under this item.



**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CONDITION**

As of Dates Indicated

(In Thousand Pesos)

	6/30/2007 <sup>1/</sup>	12/31/2006 <sup>2/</sup>
<b>ASSETS</b>		
Cash and Other Cash Items	4,328,964	4,820,155
Due from Bangko Sentral ng Pilipinas	17,956,719	12,566,759
Due from Other Banks	6,154,669	3,555,603
Interbank Loans Receivable	15,145,503	22,412,817
Securities Held Under Agreements to Resell	6,500,000	15,700,000
Securities at Fair Value Through Profit or Loss	6,876,641	1,137,835
Loans and Receivables	80,376,838	83,592,219
Receivables from Special Purpose Vehicle	1,297,261	1,361,074
Available for Sale Investments	47,071,736	42,824,810
Held to Maturity Investments	362,498	1,554,368
Property and Equipment	16,604,535	16,577,000
Investments in Subsidiaries and an Associate	701,802	801,838
Investment Properties	25,903,899	24,882,076
Other Assets	10,860,192	11,684,511
<b>TOTAL ASSETS</b>	<b>240,141,258</b>	<b>243,471,065</b>
<b>LIABILITIES AND CAPITAL FUNDS</b>		
<b>Liabilities</b>		
<b>Deposit Liabilities</b>		
Demand	18,905,969	17,867,651
Savings	137,021,166	140,233,120
Time	27,473,753	23,566,921
	<b>183,400,888</b>	<b>181,667,692</b>
Bills and Acceptances Payable	9,478,213	10,955,948
Accrued Taxes, Interest and Other Expenses	4,604,720	4,899,427
Subordinated Debt	8,402,318	8,389,297
Other Liabilities	10,509,196	12,802,426
<b>TOTAL LIABILITIES</b>	<b>216,395,335</b>	<b>218,714,790</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		
Capital Stock	22,929,837	22,929,837
Capital Paid In Excess of Par Value	545,745	545,745
Surplus Reserves	532,136	512,204
Deficit	(2,203,924)	(2,603,474)
Revaluation Increment on Land and Buildings	2,471,113	2,471,113
Accumulated Translation Adjustment	(357,590)	(114,869)
Net Unrealized Gain/(Loss) on Available-For-Sale Investments	(317,794)	832,490
Share in Equity Adjustments of an Associate	45,667	89,592
Parent Company Shares Held by a Subsidiary	(5,323)	(5,323)
	<b>23,639,865</b>	<b>24,657,315</b>
<b>MINORITY INTEREST</b>	<b>106,057</b>	<b>98,960</b>
<b>TOTAL EQUITY</b>	<b>23,745,922</b>	<b>24,756,275</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>240,141,258</b>	<b>243,471,065</b>

<sup>1/</sup> unaudited

<sup>2/</sup> audited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME <sup>1/</sup>**

**For the Periods Indicated**

(In Thousand Pesos, Except Earnings Per Share Amounts)

	Semester Ended		Quarter Ended	
	06/30/2007	6/30/2006	6/30/2007	6/30/2006
<b>INTEREST INCOME ON:</b>				
Loans and Receivables	3,266,010	3,644,308	1,605,480	1,638,841
Investment securities	1,753,872	1,906,573	880,303	1,022,818
Deposits with banks and others	444,569	262,551	145,338	121,538
	<b>5,464,450</b>	<b>5,813,432</b>	<b>2,631,120</b>	<b>2,783,197</b>
<b>INTEREST EXPENSE ON:</b>				
Deposits liabilities	2,044,400	2,585,500	929,238	1,304,194
Bills payable and other borrowings	707,515	501,794	315,463	252,549
	<b>2,751,915</b>	<b>3,087,294</b>	<b>1,244,701</b>	<b>1,556,743</b>
<b>NET INTEREST INCOME</b>	<b>2,712,535</b>	<b>2,726,138</b>	<b>1,386,419</b>	<b>1,226,454</b>
Service fees and commission income	1,203,059	1,297,501	580,983	606,470
Service fees and commission expense	59,600	47,491	30,838	23,095
<b>NET SERVICE FEES AND COMMISSION INCOME</b>	<b>1,143,459</b>	<b>1,250,010</b>	<b>550,145</b>	<b>583,375</b>
Trading and investment securities gains/(loss) - net	459,090	1,023,619	(85,369)	149,024
Foreign exchange gains-net	499,286	917,134	257,266	599,359
Miscellaneous	862,580	1,359,220	373,452	1,108,858
<b>TOTAL OPERATING INCOME</b>	<b>5,676,951</b>	<b>7,276,122</b>	<b>2,481,914</b>	<b>3,667,071</b>
<b>OTHER EXPENSES</b>				
Compensation and fringe benefits	1,683,480	1,596,708	843,997	807,378
Provision for Impairment and credit Losses	655,138	1,703,686	73,468	693,867
Taxes and licenses	476,416	584,423	195,031	270,203
Depreciation and amortization	391,803	755,357	194,199	588,347
Occupancy and other equipment related costs	471,789	438,807	281,812	235,334
Miscellaneous	1,110,672	1,320,178	411,519	644,439
<b>TOTAL OPERATING EXPENSES</b>	<b>4,789,298</b>	<b>6,399,159</b>	<b>2,000,026</b>	<b>3,239,568</b>
<b>INCOME BEFORE SHARE IN NET INCOME</b>				
OF AN ASSOCIATE AND INCOME TAX	887,653	876,963	481,888	427,503
<b>SHARE IN NET INCOME/(LOSS) OF AN ASSOCIATE</b>	<b>(5,205)</b>	<b>31,040</b>	<b>(9,324)</b>	<b>26,353</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>882,448</b>	<b>908,003</b>	<b>472,564</b>	<b>453,856</b>
<b>PROVISION FOR INCOME TAX</b>	<b>260,602</b>	<b>481,382</b>	<b>158,988</b>	<b>219,994</b>
<b>NET INCOME FOR THE PERIOD</b>	<b>621,846</b>	<b>426,621</b>	<b>313,576</b>	<b>233,862</b>
<b>ATTRIBUTABLE TO:</b>				
Equity Holders of the Parent Company	618,296	425,372	312,323	234,544
Minority Interest	3,550	1,249	1,253	(682)
	<b>621,846</b>	<b>426,621</b>	<b>313,576</b>	<b>233,862</b>
Basic/Diluted Earnings Per Share				
Attributable to Equity Holders of the Parent Company	P 1.08	P 0.74	P 0.54	P 0.41

<sup>1/</sup> unaudited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY<sup>1/</sup>****For the Periods Indicated****(In Thousand Pesos, except Par Value and Number of Shares)**

	Semester Ended	
	6/30/2007	6/30/2006
<b>CAPITAL STOCK</b>		
Preferred - P40 par value		
Authorized - 195,175,444 shares		
Issued - 54,357,751 shares as of 6/30/07 and 6/30/06	2,174,310	2,174,310
Common - P40 par value		
Authorized - 1,054,824,557 shares		
Issued - 518,888,165 shares as of 6/30/07 and 6/30/06	20,755,527	20,755,527
Balance at end of the period	22,929,837	22,929,837
<b>CAPITAL PAID-IN EXCESS OF PAR VALUE</b>	545,745	545,745
<b>SURPLUS RESERVES</b>		
Balance at beginning of the period	512,204	495,118
Transfer from Surplus	19,932	17,086
Balance at end of the period	532,136	512,204
<b>SURPLUS (DEFICIT)</b>		
Balance at beginning of the period	(2,603,474)	(3,657,870)
Net income for the period	618,296	425,372
Transfer to surplus reserves	(19,932)	(17,086)
Amortization of deferred losses	(198,814)	(133,971)
Balance at end of the period	(2,203,924)	(3,383,555)
<b>REVALUATION INCREMENT ON LAND AND BUILDINGS</b>	2,471,113	1,480,301
<b>ACCUMULATED TRANSLATION ADJUSTMENT</b>	(357,590)	178,511
<b>NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS</b>	(317,794)	(778,773)
<b>SHARE IN EQUITY ADJUSTMENTS OF AN ASSOCIATE</b>	45,667	47,173
<b>PARENT COMPANY SHARES HELD BY A SUBSIDIARY</b>	(5,323)	(5,323)
	23,639,865	21,526,120
<b>MINORITY INTEREST</b>	106,057	94,184
<b>TOTAL EQUITY</b>	23,745,922	21,620,303

<sup>1/</sup> unaudited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**<sup>17</sup>  
**For the Periods Indicated**  
**(In Thousand Pesos)**

	<b>Semester Ended</b>	
	<b>6/30/2007</b>	<b>6/30/2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	882,448	908,003
Adjustments for:		
Provision for impairment and credit losses	655,138	1,703,686
Depreciation and amortization	391,803	755,357
Realized trading gain	(638,533)	(721,563)
Gain on sale of investment property	(111,958)	(171,287)
Share in net income/loss of an associate	5,205	(31,040)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Securities at fair value through profit or loss	(5,738,806)	(436,667)
Loans and receivables	764,418	(3,564,183)
Other assets	676,428	(947,762)
Increase (decrease) in amounts of:		
Deposit liabilities	1,733,196	10,417,268
Accrued taxes, interest and other expenses	(464,907)	(23,816)
Other liabilities	(2,293,232)	(633,456)
Net cash generated from (used in) operations	(4,138,800)	7,254,541
Income taxes paid	(90,402)	(435,848)
Net cash provided by (used in) operating activities	(4,229,202)	6,818,693
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of:		
Available-for-sale investments	(162,487,112)	(130,548,131)
Property and equipment	(27,535)	(112,873)
Held-to-maturity investments	(4,047,043)	(5,447,850)
Proceeds from sale of:		
Available-for-sale investments	157,644,166	124,706,507
Investment properties	403,047	876,907
Proceeds from maturity/redemption of held-to-maturity investments	5,238,913	6,523,940
Net cash provided by (used in) investing activities	(3,275,563)	(4,001,500)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Settlement of bills and acceptances payable	(370,401,296)	(21,569,493)
Proceeds from bills and acceptances payable	368,923,561	21,453,987
Subordinated debt	13,021	4,834
Net cash provided by (used in) financing activities	(1,464,714)	(110,672)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,969,479)</b>	<b>2,706,520</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	4,820,155	5,670,002
Due from Bangko Sentral ng Pilipinas	12,566,759	3,719,362
Due from other banks	3,555,603	5,696,540
Interbank loans receivable	22,412,817	16,914,045
Securities held under agreements to resell	15,700,000	12,300,000
	<b>59,055,334</b>	<b>44,299,949</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Cash and other cash items	4,328,964	5,550,249
Due from Bangko Sentral ng Pilipinas	17,956,719	6,948,565
Due from other banks	6,154,669	4,805,424
Interbank loans receivable	15,145,503	17,702,231
Securities held under agreements to resell	6,500,000	12,000,000
	<b>50,085,855</b>	<b>47,006,469</b>
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>		
Interest paid	3,214,997	3,186,861
Interest received	5,195,920	5,342,870

<sup>17</sup> Unaudited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**  
**SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1) Accounting Policies and Methods**

The accompanying consolidated financial statements of Philippine National Bank and its Subsidiaries (the Group) which comprise the statements of condition as of June 30, 2007 and December 31, 2006 and the statements of income, statements of changes in equity and statements of cash flows for the semester and quarter ended June 30, 2007 and June 30, 2006 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), except for the deferral of losses on sale of non-performing assets (NPAs) to special purposes vehicles (SPVs) in 2004, 2005 and 2006 which were taken up in line with Republic Act No. 9182 (The Special Purpose Vehicle Act of 2002), and the non-consolidation of the SPV that acquired the NPAs in 2006.

**2) Issuance of Subordinated Notes**

On August 10, 2006, PNB issued two series (A and B) P5,500,000,000 worth of 10.0% Subordinated Notes due 2016, callable with step up in 2011 (the "Notes"). From and including 10 August 2006 but excluding 10 August 2011, the Notes will bear interest at the rate of 10.0% per annum and shall be payable quarterly in arrears on every 10<sup>th</sup> February, May, August and November each year, commencing 10 November 2006. Unless the Notes are previously redeemed, the interest rate from and including 10 August 2011 to but excluding 10 August 2016 will be reset at the equivalent of the five-year MART1 FXTN (as Reset Date) multiplied by 80.00%, plus a spread of 4.4935% per annum, and such stepped up interest shall be payable quarterly in arrears every 10<sup>th</sup> of February, May, August and November of each year, commencing 10 November 2011. The Notes will mature on 10 August 2016, if not redeemed earlier.

**3) Segment Information**

Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. Group's business segments follow:

Retail Banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers;

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by investing in T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

These segments are the bases on which the Group reports its primary segment information. Other operations of the Group comprise of the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on a pool rate which approximates the marginal cost of funds.

Business segment information of the Group as of June 30, 2007 (in thousand pesos) follows:

	Retail	Corporate	Treasury	Other	Total
Gross income	1,477,224	2,719,364	3,635,464	651,208	8,483,261
Segment result	792,047	362,490	1,297,529	119,726	2,571,792
Unallocated expenses					1,685,794
Income from operations before taxations and minority interest					885,998
Provision for income tax					(260,602)
Minority interest					(3,550)
Net income for the year					621,846
Other Information					
Segment resources	23,374,378	64,681,106	76,538,268	30,779,850	195,373,603
Unallocated resources					44,767,656
Total resources					240,141,258
Segment liabilities	20,651,479	57,146,354	67,622,266	27,194,282	172,614,381
Unallocated liabilities					43,678,448
Total liabilities					216,292,829
Minority interest					102,507
					216,395,335
Other Segment Information					
Capital Expenditures	97,020	5,267	578	1,344	104,209
Unallocated capital expenditures					286,989
Total Capital Expenditures					391,197
Depreciation and amortization	43,655	96,709	2,294	3,971	146,630
Unallocated depreciation and amortization					245,174
Total Depreciation and amortization					391,803

### Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five principal geographical areas of the world. In the Philippines, the Group offers a wide range of financial services. Most of its remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The distribution of the Group's gross revenue by geographical market follows:

	<b>Semester Ended</b>	
	<b>6/30/07</b>	<b>6/30/06</b>
	(In Thousand Pesos)	
Philippines	<b>₱ 7,519,709</b>	₱ 8,241,109
Canada and the United States	<b>494,366</b>	684,220
Asia (excluding Philippines)	<b>365,630</b>	473,397
United Kingdom	<b>51,787</b>	100,633
Other European Countries	<b>51,770</b>	35,913
	<b>₱ 8,483,261</b>	₱ 9,535,271

#### 4) Contingent Accounts

Following is a summary of the Group's commitments and contingent accounts as of June 30, 2007 and December 31, 2006 at their equivalent peso contractual amounts:

	<b>6/30/07</b>	<b>12/31/06</b>
	(In Thousand Pesos)	
Trust department accounts	<b>₱ 20,991,668</b>	₱ 14,130,582
Deficiency claims receivable	<b>12,687,565</b>	12,772,446
Inward bills for collection	<b>29,624</b>	6,533,310
Unused commercial letters of credit	<b>6,490,129</b>	6,962,819
Confirmed export letters of credit	<b>2,908,893</b>	2,733,999
Outward bills for collection	<b>221,533</b>	152,738
Outstanding guarantees issued	<b>519,844</b>	351,967
Others contingent accounts	<b>59,666</b>	59,387

#### 5) Material Contingencies

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

## 6) Earnings Per Share

Earnings per share is calculated as follows:

	Semester Ended	
	6/30/07	6/30/06
a. Net Income		
a.1 Common shares	559,666	385,036
Preferred shares	58,630	40,336
a.2 Total	618,296	425,372
b. Weighted average number of common shares for basic income per share (in thousands)	518,888	378,070
c. Weighted average number of common shares for diluted income per share (in thousands)		
Effect of dilution:		
Convertible preferred shares	54,358	195,175
Adjusted weighted average number of Common shares of diluted income per share	573,246	573,245
d. Basic income per share (a.1/b)	₱ 1.08	₱ 0.74
e. Diluted income per share (a.2/c)	1.08	0.74

## 7) Reclassification

Certain accounts in semester ended 2006 financial statements were reclassified to conform with the semester ended 2007 presentation which takes into account the fundamental nature and significance of the transactions as well as general financial statement presentation giving consideration to BSP chart of accounts as applicable under PFRS reporting.

## 8) Subsequent Event

In July 2007, PNB's Shares were offered and sold at a price of ₱59.0 per share to the public. The sale consists of 89,000,000 primary offer shares and 71,811,091 secondary offer shares. Of the total offer, 70 percent was sold to international investors and 30 percent to local players.

## 9) Other Disclosures

The Bank has nothing to disclose on the following:

- Seasonality or cyclicity of interim operations
- Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidents (other than those disclosed in the report)
- Change in estimates
- Dividends paid separately for ordinary shares and other shares
- Changes in the composition of the enterprise during the interim period including business combination, disposal of subsidiaries and long-term investments, restructurings and discontinuing operations.



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**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

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**SCHEDULE OF AGING OF LOANS RECEIVABLES\***

**(PSE Requirement per Circular No. 2164-99)**

**As of June 30, 2007**

**(In Thousand Pesos)**

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<b>Current accounts (by maturity)</b>	
Up to 12 months	20,193,118
over 1 year to 3 years	5,032,519
over 3 years to 5 years	9,872,331
over 5 years	12,442,378
<b>Past due and items in litigations</b>	<u>10,952,807</u>
<b>Loans Receivables (gross)</b>	<b>58,493,153</b>
<b>Less:</b>	
Unearned discount	(180,670)
Capitalized interest	(294,571)
Allowance for impairment losses	<u>(6,935,399)</u>
<b>Loans Receivables (net)</b>	<b><u><u>51,082,514</u></u></b>

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\* includes loans and discounts, customers' liability under acceptances, letters of credits and trust receipts, bills purchased, credit card accounts.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PHILIPPINE NATIONAL BANK**  
Issuer



**OMAR BYRON T. MIER**  
President and Chief Executive Officer



**CARMEN G. HUANG**  
Executive Vice President & Chief Financial Officer

Date: August 10, 2007